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UNCLAS SECTION 01 OF 03 TUNIS 000898

SIPDIS

SENSITIVE

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COMMERCE FOR CLDP (MARC TEJTEL), ITA/MAC/ONE (DAVID ROTH),  
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STATE PLEASE PASS USTR (DOUG BELL)

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [EFIN](#) [TS](#)

SUBJECT: FREE TRADE WITH THE U.S.: ARE THE TUNISIANS READY?

REF: A. 04 TUNIS 2422

[B](#). 05 TUNIS 00610

[C](#). 04 TUNIS 872

[1](#)1. (SBU) Summary. Booz Allen Hamilton's Emad Tinawi visited Tunis April 4 ) 8, to consult with U.S. Embassy and GOT officials, private sector representatives, and academics on U.S.-Tunisian trade and investment issues. Tinawi's visit, as a private sector consultant to the Department, aimed to assess Tunisia's "political will" regarding our Trade and Investment Framework Agreement (TIFA) and Tunisia's preparedness for the next TIFA Council. Tinawi's visit reinforced our understanding that Tunisia is articulating its long-term desire to move ahead, but may not fully appreciate or be ready to undertake the magnitude of effort required to get there. Tinawi's visit assisted Post with conveying the scale of further TIFA negotiations and with highlighting what more could be done proactively to address TIFA issues and to raise public awareness in support for freer trade. USTR has tentatively agreed to convene a second TIFA Council in June [1](#)2005. End Summary.

#### General Support for TIFA

[1](#)2. (SBU) GOT interlocutors, including Secretary of State Lajimi from the Ministry of Development and International Cooperation (MDIC), on repeated occasions noted that the GOT possesses the necessary technical expertise and resources to handle major trade agreements. (MDIC is the lead Ministry on TIFA issues.) The GOT believes its Association Agreement with the European Union, which will eliminate trade tariffs by 2008, is bringing Tunisia up to international standards. The EU Association Agreement, however, excludes important sectors like "agriculture" and "services", which are anticipated to be major issues in further U.S. negotiations.

[1](#)3. (SBU) We delivered the message that U.S. trade negotiations are comprehensive, and thus more demanding than WTO requirements, ratcheting up commitments based on other bilateral trade agreements. Lajimi expressed a strong desire to see the U.S.-Tunisian dialogue jump-started and pointedly requested that the USG "put an FTA on the table."

#### Financial Services and the Banking Sector

[1](#)4. (U) According to Tinawi, the banking sector and liberalization of Tunisia's financial services are strategic areas we can promote for advancing reform in Tunisia. Tunisia is engaged in significant, deliberate efforts to modernize its economy and to integrate into international financial systems. A Ministry of Finance representative noted that helping banks handle international competition is a key prerequisite to further liberalization of the financial services sector; and clean-up of Tunisia's bad loans (See Ref A) is similarly a precondition to opening up the sector. Technical assistance in these and other areas is still required to upgrade Tunisia's economy and the GOT often requests such assistance of the Embassy to foster the TIFA process. We are continuing to develop such programs under our Middle East Partnership Initiative agenda and appreciate the Department's support in this regard.

[1](#)5. (U) A representative from Tunisia's Central Bank reiterated these messages in another meeting: Tunisia's ongoing policy is to clear its bad loans and to privatize banks to encourage foreign investors, capital. (Comment: Post notes these as encouraging signs that bode well for continued liberalization in the short-to-medium term and which acknowledge required reforms. End Comment.) The Central Bank representative also noted that Tunisia's liberalization of exchange policy and movement toward convertibility of the dinar is similarly introducing competitive forces on a gradual basis. (See Ref B for more on Tunisia's preparations for currency convertibility.)

[1](#)6. (U) Representatives from MDIC also noted that, although the U.S. and GOT have agreed to move forward on TIFA issues, no significant national debate or public/private sector

dialogue has yet occurred and they recognized this as an area for further action. We also suggested that acceleration of the process might occur if the GOT were to articulate further concrete action plans to address specific USG concerns, and that progress on certain issues would serve as a signal to USTR that the GOT is committed to greater economic cooperation and trade relations with the U.S.

17. (U) Customs officials in separate meetings additionally noted that they are working on the complete dismantling of tariffs with Europe under the EU Association Agreement, as well as ongoing administrative issues, such as rules of origin and customs valuations. Emboff raised a past issue with the GOT's valuation mechanisms (essentially a mark-up of 25 percent for valuations for certain imported goods). This issue has never been resolved (See Ref C) and will need addressing. Customs officials did seem willing to engage on this and other issues. (Comment: There is no doubt that Customs has the ability to accommodate and implement new rules and procedures when required. End Comment.) Customs officials again requested USG technical assistance for better education on U.S. standards and practices, vice European ones.

#### Intellectual Property Rights

18. (U) IPR issues continue to complicate our commercial relationship and our commercial advocacy efforts here. According to representatives at OTPDA (Organisme Tunisien de Protection de Droits d'Auteurs), the body responsible for copyright protection, IPR enforcement still remains a challenge, and there needs to be a "mentality shift" on IPR issues. OTPDA clearly notes that the "political will" exists to attack these problems because Tunisia wishes to create its own information society predicated on protection of intellectual wares. OTPDA is taking a proactive approach and is creating formulaic contracts for artists to better enable them to protect their rights. OTPDA has also taken the lead in establishing an interagency commission to undertake an "evaluation designed to assess IPR compliance in Tunisia and to propose a responsive action plan." (Comment: We will follow such developments closely and report activity septel. End Comment.)

#### The Non-official View: Very supportive

19. (U) University of Tunis Professor of International Finance Ben Marzouka believes that a comprehensive liberalized trade regime with the U.S. is feasible and desirable, given the positive experience of integration into the EU trading system. Ben Marzouka noted several challenges that will need to be addressed directly in the course of discussions with U.S. counterparts. Again, Ben Marzouka echoed a lack of modernization in the banking sector, possibly requiring technical assistance to upgrade competitiveness. He also cited bad loans that will require "structural adjustments" and government buy-back of loans to resolve the "Resolution Trust-like Corporations" that each Tunisian bank has created and into which bad loans have been shifted. Other barriers to progress in our trade negotiations with Tunisia will be resistance from some EU quarters to perceived U.S. competition, lack of general competitiveness in Tunisia, which may spawn protectionist tendencies, or force "transition-implementation" periods, and concerns about employment dislocation, social stability, and sovereignty regarding foreign ownership of national interests.

110. (U) In another meeting, Tunisian-American Chamber of Commerce (TACC) representatives stated that TIFA (and an eventual Free Trade Agreement with the U.S.) are key priorities of their current membership. TACC is currently conducting a membership survey to cull information on current perceived obstacles to achievement of greater economic cooperation with the U.S. TACC has also recently submitted a small grant proposal under the Middle East Partnership Initiative (MEPI) to organize a conference and website dedicated to free trade with the U.S.

111. (U) According to TACC, differences of opinion on the benefits of freer trade with the U.S. do exist. A number of sectors clearly desire greater access to U.S. markets, but other elements note that the EU will likely jealously guard its vested interests in Tunisia. TACC also speculates that if trade does not liberalize more significantly with the U.S., then the EU's current 75 percent of Tunisian imports and exports, will very likely increase to 80 or 85 percent in the coming years.

112. (SBU) Demographic Pressures. TACC also noted that with economic growth correlating directly with job growth, Tunisia's growing demographic labor bubble will put strains on unemployment figures. Estimates range from 70,000 to 80,000 new jobs required annually to keep GDP growth at current 5 percent or higher.

113. (U) Tunisian businesses are beginning to explore the U.S. market and many are doing so aggressively, according to TACC.

Nevertheless, concerns over consistency, quality, and competitiveness hinder the effort. The intensely competitive U.S. corporate environment is also perceived as a threat to Tunisian companies, especially in the agricultural sector, which employs approximately 22 percent of Tunisia's labor force and indirectly affects a majority of Tunisian households. Other barriers to a more advanced trade agreement with the U.S. are language, geography, business culture, and limited knowledge of U.S. regulations, especially those for U.S. Customs. Increased awareness of the TIFA process and the benefits of liberalized trade will help advance the cause in Tunisia.

14. (U) Tunisia's employer's union (UTICA), which represents 80 per cent of Tunisia's industries numbering 200,000 companies, also strongly supports greater trade liberalization, diversification, and cooperation with the U.S. In fact, UTICA initiated with the GOT steps toward Tunisia's recent FTA with Turkey with the submission of a white-paper on the topic, later becoming a stakeholder on a Joint Commission organized to handle issues related to the FTA's negotiation and implementation. UTICA hopes to be an active participant at the next U.S.-Tunisia TIFA Council and will likely be a key component in pushing any agreement through Tunisian approval and legislative processes.

Comment

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15. (SBU) The Tunisians obviously desire the symbolic seal of approval of an FTA or at least to be seen as engaged with the U.S. on this level. We should capitalize on their enthusiasm to move forward on trade and investment, as part of our broader reform agenda. If not, we risk sending mixed signals regarding our commitment to reform. The creation of incentives for new high-value-added jobs in a population of only 10 million will support our agenda in the direction of greater economic opportunity. U.S. competitive advantages in high-tech sectors are already being leveraged in our MEPI assistance programming to positive effect here. Additionally, competitive tendencies among North African/Middle Eastern countries could also be emphasized as part of a chain-reaction of reform in the Middle East. Morocco beating Tunisia to the punch in achieving an FTA with the U.S. has left the Tunisians consciously envious of Morocco's enhanced status and desiring to join the club.

16. (SBU) Tinawi's visit reaffirmed Post's position that our TIFA dialogue with the Tunisians is a positive relationship that also sends a broader message of economic reform throughout the region. Tunisia has already embarked on an ambitious path of reform as part of its greater economic development plan in conjunction with the implementation of its Association Agreement with the European Union. We encourage USTR to continue its engagement on our TIFA process so as not to lose forward momentum. Open markets, greater transparency, job creation, and higher quality of life are the strongest reasons for using our TIFA agenda as incentives for bringing reform to the Arab world. Failing to move forward with our TIFA dialogue at this juncture will risk sending precisely the opposite message, consequently fortifying those in the Arab world who seek to diminish economic ties with the U.S. and reduce our ability to influence political reform in the region. We will need to guide them through further trade and investment negotiations in order to achieve our objectives.

HUDSON